



6450-01-P

## **DEPARTMENT OF ENERGY**

### **Western Area Power Administration**

#### **Loveland Area Projects – Rate Order No. WAPA-167**

**AGENCY:** Western Area Power Administration, DOE.

**ACTION:** Notice of Order Concerning Firm Electric Rates.

**SUMMARY:** The Deputy Secretary of Energy confirmed and approved Rate Order No. WAPA-167 and Rate Schedule L-F10, placing firm electric service rates for the Western Area Power Administration (Western) Loveland Area Projects (LAP) into effect on an interim basis.

**DATES:** Rate Schedule L-F10 will be placed into effect on an interim basis on the first day of the first full billing period beginning on or after January 1, 2015, and will remain in effect until the Federal Energy Regulatory Commission (FERC) confirms, approves, and places the rate schedule into effect on a final basis ending December 31, 2019, or until the rate schedule is superseded.

**FOR FURTHER INFORMATION CONTACT:** Mr. Bradley S. Warren, Regional Manager, Rocky Mountain Region, Western Area Power Administration, 5555 East Crossroads Boulevard, Loveland, CO 80538-8986, telephone (970) 461-7201, or Mrs. Sheila D. Cook, Rates Manager, Rocky Mountain Region, Western Area Power Administration, 5555 East Crossroads Boulevard, Loveland, CO 80538-8986, telephone (970) 461-7211, e-mail [scook@wapa.gov](mailto:scook@wapa.gov).

**SUPPLEMENTARY INFORMATION:** The existing Rate Schedule L-F9 was approved under Rate Order No. WAPA-146 for the period beginning January 1, 2010, and ending

December 31, 2014.<sup>1</sup> Under the current rate methodology, rates for LAP firm electric service are designed to recover an annual revenue requirement that includes investment repayment, interest, purchase power, operation and maintenance, and other expenses within the allowable period. The total annual revenue requirement for LAP remains \$84.5 million for firm electric service. In addition, the overall capacity and energy charges are not changing, as the existing charges in the current rate schedules for firm electric service continue to provide sufficient revenue to meet LAP's repayment obligations. The Rate Schedule continues to be formula based. An incremental upward adjustment to the Drought Adder greater than the equivalent of 2 mills/kWh to the Power Repayment Study (PRS) Composite Rate will require a public process. The Drought Adder may be adjusted downward pursuant to the formula without a public process.

Rate Schedule L-F9 is being superseded by Rate Schedule L-F10. Under Rate Schedule L-F10, the firm capacity charge will remain \$5.43/kWmonth and the firm energy charge will remain 20.71 mills/kWh. The Base and Drought Adder components associated with these charges are shown in Table 1 below:

**Table 1 - Summary of LAP Charge Components**

	<b>Existing Charges Under Rate Schedule L-F9 Effective January 1, 2010</b>			<b>Provisional Charges Under Rate Schedule L-F10 Effective January 1, 2015</b>		
	<b>Base Component</b>	<b>Drought Adder Component</b>	<b>Total Charge</b>	<b>Base Component</b>	<b>Drought Adder Component</b>	<b>Total Charge</b>
Firm Capacity (\$/kWmonth)	\$3.29	\$2.14	\$5.43	\$3.92	\$1.51	\$5.43
Firm Energy (mills/kWh)	12.54	8.17	20.71	14.95	5.76	20.71

<sup>1</sup> WAPA-146 was approved by the Deputy Secretary of Energy on December 14, 2009 (74 FR 67191 (Dec 18, 2009)), and confirmed and approved by FERC on a final basis on June 18, 2010, in Docket No. EF10-1-000. See *United States Department of Energy, Western Area Power Administration (Loveland Area Projects)*, 131 FERC ¶ 62,247.

By Delegation Order No. 00-037.00A, effective October 25, 2013, the Secretary of Energy delegated: (1) the authority to develop power and transmission rates to Western's Administrator; (2) the authority to confirm, approve, and place such rates into effect on an interim basis to the Deputy Secretary of Energy; and (3) the authority to confirm, approve, and place into effect on a final basis, to remand or to disapprove such rates to FERC. Existing Department of Energy procedures for public participation in power rate adjustments (10 CFR part 903) were published on September 18, 1985.

Under Delegation Order Nos. 00-037.00A and 00-001.00E and in compliance with 10 CFR part 903 and 18 CFR part 300, I hereby confirm, approve, and place Rate Order No. WAPA-167, LAP firm electric service rates, into effect on an interim basis (Provisional Rates).

The new Rate Schedule L-F10 will be promptly submitted to FERC for confirmation and approval on a final basis.

Dated: December 2, 2014.

Elizabeth Sherwood-Randall  
Deputy Secretary of Energy

**DEPARTMENT OF ENERGY  
DEPUTY SECRETARY**

In the matter of:	)	
	)	
Western Area Power Administration	)	
Rate Adjustment for the	)	Rate Order No. WAPA-167
Loveland Area Projects	)	

**ORDER CONFIRMING, APPROVING, AND PLACING THE  
LOVELAND AREA PROJECTS FIRM ELECTRIC SERVICE RATES  
INTO EFFECT ON AN INTERIM BASIS**

These firm electric service rates for the Loveland Area Projects (LAP) were established in accordance with section 302 of the Department of Energy (DOE) Organization Act (42 U.S.C. 7152). This Act transferred to and vested in the Secretary of Energy the power marketing functions of the Secretary of the Department of the Interior and the Bureau of Reclamation under the Reclamation Act of 1902 (ch. 1093, 32 Stat. 388), as amended and supplemented by subsequent laws, particularly section 9(c) of the Reclamation Project Act of 1939 (43 U.S.C. 485h(c)) and section 5 of the Flood Control Act of 1944 (16 U.S.C. 825s), and other acts that specifically apply to the project involved.

By Delegation Order No. 00-037.00A, effective October 25, 2013, the Secretary of Energy delegated: (1) the authority to develop power and transmission rates to the Administrator of Western Area Power Administration (Western); (2) the authority to confirm, approve, and place such rates into effect on an interim basis to the Deputy Secretary of Energy; and (3) the authority to confirm, approve, and place into effect on a final basis, to remand, or to disapprove such rates to the Federal Energy Regulatory Commission (FERC). Existing DOE procedures for public participation in power rate adjustments (10 CFR part 903) were published on September 18,

1985.

## **Acronyms and Definitions**

As used in this Rate Order, the following acronyms and definitions apply:

<u>Base:</u>	A fixed revenue requirement that includes operation and maintenance expenses, investments and replacements, interest on investments and replacements, normal timing purchase power (purchases due to operational constraints, not associated with drought), and transmission costs.
<u>Capacity:</u>	The electric capability of a generator, transformer, transmission circuit, or other equipment. It is expressed in kilowatts.
<u>Capacity Charge:</u>	The charge under the rate schedule for capacity. It is expressed in dollars per kilowattmonth.
<u>Composite Rate:</u>	The Power Repayment Study (PRS) rate for commercial firm power which is the total annual revenue requirement for capacity and energy divided by the total annual energy sales. It is expressed in mills per kilowatthour and used for comparison purposes.
<u>CROD:</u>	Contract Rate of Delivery. The maximum amount of capacity and energy allocated to a Preference Customer for a period specified under a contract.
<u>Deficits:</u>	Deferred or unrecovered annual and/or interest expenses.
<u>DOE Order RA 6120.2:</u>	An order outlining power marketing administration financial reporting and rate-making procedures.
<u>Drought Adder:</u>	A formula-based revenue requirement that includes future purchase power above timing purchases, previous purchase power drought deficits, and interest on the purchase power drought deficits.
<u>Energy:</u>	Measured in terms of the work it is capable of doing over a period of time. Energy is expressed in kilowatthours.
<u>Energy Charge:</u>	The charge under the rate schedule for energy. It is expressed in mills per kilowatthour and applied to each kilowatthour delivered to each customer.

<u>Firm:</u>	A type of product and/or service available at the time requested by the customer.
<u>FY:</u>	Fiscal year - October 1 to September 30.
<u>kW:</u>	Kilowatt - the electrical unit of capacity that equals 1,000 watts.
<u>kWh:</u>	Kilowatthour - the electrical unit of energy that equals 1,000 watts in 1 hour.
<u>kWmonth:</u>	Kilowattmonth - the electrical unit of the monthly amount of capacity.
<u>mills/kWh:</u>	Mills per kilowatthour – the unit of charge for energy (equal to one tenth of a cent or one thousandth of a dollar).
<u>MW:</u>	Megawatt - the electrical unit of capacity that equals 1 million watts or 1,000 kilowatts.
<u>Non-timing Power Purchases:</u>	Power purchases that are not related to operational constraints such as management of endangered species, species habitat, water quality, navigation, control area purposes, etc.
<u>O&amp;M:</u>	Operation and Maintenance.
<u>P-SMBP:</u>	The Pick-Sloan Missouri Basin Program.
<u>P-SMBP--ED:</u>	Pick-Sloan Missouri Basin Program--Eastern Division.
<u>P-SMBP--WD:</u>	Pick-Sloan Missouri Basin Program--Western Division.
<u>Power:</u>	Capacity and energy.
<u>Power Factor:</u>	The ratio of real to apparent power at any given point and time in an electrical circuit. Generally, it is expressed as a percentage.
<u>Preference:</u>	The provisions of Reclamation Law that require Western to first make Federal power available to certain entities. For example, section 9(c) of the Reclamation Project Act of 1939 (43 U.S.C. 485h(c)) states that preference in the sale of Federal power shall be given to municipalities and other public corporations or agencies and also to cooperatives and

other nonprofit organizations financed in whole or in part by loans made under the Rural Electrification Act of 1936.

Provisional Rate:

A rate that has been confirmed, approved, and placed into effect on an interim basis by the Deputy Secretary of Energy.

Revenue Requirement:

The revenue required by PRS to recover annual expenses (such as O&M, purchase power, transmission service expenses, interest, and deferred expenses) and repay Federal investments and other assigned costs.

**Effective Date**

The Provisional Rates will take effect on the first day of the first full billing period beginning on or after January 1, 2015, and will remain in effect until December 31, 2019, pending approval by FERC on a final basis.

**Public Notice and Comment**

Western followed the Procedures for Public Participation in Power and Transmission Rate Adjustments and Extensions, 10 CFR part 903, in developing these rates. The steps Western took to involve interested parties in the minor rate process were:

1. On April 17, 2014, Western mailed a notice announcing an informal public meeting would be held via webinar on May 2, 2014, to discuss the rate process for the expiring firm electric service rates for LAP. The focus of the webinar was to provide an update on the FY 2013 PRS, discuss the Base and Drought Adder component true-up, and plan for the upcoming rate adjustment process.
2. A Federal Register notice (FRN), published on August 8, 2014 (79 FR 46430), announced the proposed rates for LAP and began the 30-day public consultation and comment period.
3. On August 11, 2014, Western mailed letters to all LAP Preference Customers and interested parties transmitting the FRN published on August 8, 2014.

4. Western provided a Web page that contains all dates, customer letters, presentations, the FRN, and all other information about this rate process. The Web page is located at <https://www.wapa.gov/rm/ratesRM/2015/default.htm>.
5. During the consultation and comment period, which ended September 8, 2014, Western received one comment letter. The formally submitted comment has been considered in the preparation of this Rate Order.

#### Comment

#### **Written comment received by the following organization:**

Mid-West Electric Consumers Association

#### **Project Description**

##### Loveland Area Projects

The Post-1989 General Power Marketing and Allocation Criteria, published in the Federal Register on January 31, 1986 (51 FR 4012), integrated the resources of the P-SMBP--WD and Fryingpan-Arkansas Project (Fry-Ark). This operational and contractual integration, known as LAP, allowed an increase in marketable resource, simplified contract administration, and established a blended rate for LAP power sales. The Rocky Mountain Region markets LAP power in northeastern Colorado, east of the Continental Divide in Wyoming, west of the 101st meridian in Nebraska, and most of Kansas.

The P-SMBP--WD and Fry-Ark retain separate financial status. For this reason, separate PRSs are prepared annually for each project. These PRSs are used to determine the sufficiency of the firm electric service rate to generate adequate revenue to repay project investment and costs during each project's prescribed repayment period. The revenue requirement of the Fry-Ark PRS is combined with the P-SMBP--WD revenue requirement, derived from the



P-SMBP PRS, to develop one rate for LAP firm electric sales.

### Pick-Sloan Missouri Basin Program

The P-SMBP was authorized by Congress in Section 9 of the Flood Control Act of December 22, 1944, commonly referred to as the Flood Control Act of 1944. This multipurpose program provides flood control, irrigation, navigation, recreation, preservation and enhancement of fish and wildlife, and power generation. Multipurpose projects have been developed on the Missouri River and its tributaries in Colorado, Montana, Nebraska, North Dakota, South Dakota, and Wyoming.

In addition to the multipurpose water projects authorized by Section 9 of the Flood Control Act of 1944, certain other existing projects have been integrated with the P-SMBP for power marketing, operation, and repayment purposes. The Colorado-Big Thompson, Kendrick, and Shoshone Projects were combined with the P-SMBP in 1954, followed by the North Platte Project in 1959. These projects are referred to as the “Integrated Projects” of the P-SMBP.

The Flood Control Act of 1944 also authorized the inclusion of the Fort Peck Project with the P-SMBP for operation and repayment purposes. The Riverton Extension Unit of the Flood Control Act of 1944 Project was reauthorized to include the original Riverton Project in 1970.

The P-SMBP is marketed by two regions. The Rocky Mountain Region, with a regional office in Loveland, Colorado, markets the Western Division power of P-SMBP through LAP. Western Division power is marketed in Colorado, Kansas, Nebraska, and Wyoming. The Upper Great Plains Region, with a regional office in Billings, Montana, markets power from the Eastern Division of P-SMBP. P-SMBP power is marketed to approximately 53 firm power customers by the Rocky Mountain Region and approximately 360 firm power customers by the Upper Great Plains Region.

## Fryingpan-Arkansas Project

Fry-Ark is a trans-mountain diversion development in southeastern Colorado authorized by the Act of Congress on August 16, 1962 (Pub. L. 87-590, 76 Stat. 389, as amended by Title XI of the Act of Congress on October 27, 1974 (Pub. L. 93-493, 88 Stat. 1486, 1497)). The Fry-Ark diverts water from the Fryingpan River and other tributaries of the Roaring Fork River in the Colorado River Basin on the West Slope of the Rocky Mountains to the Arkansas River on the East Slope. The water diverted from the West Slope, together with regulated Arkansas River water, provides supplemental irrigation and M&I water supplies, and produces hydroelectric power. Flood control, fish and wildlife enhancement, and recreation are other important purposes of Fry-Ark. The only generating facility in Fry-Ark is the Mt. Elbert Pumped-Storage powerplant on the East Slope.

### **Power Repayment Study - Firm Electric Service Rate**

Western prepares a PRS each FY to determine if revenues will be sufficient to repay, within the required time, all costs assigned to LAP. Repayment criteria are based on Western's applicable laws and legislation, as well as policies including DOE Order RA 6120.2. To meet Cost Recovery Criteria outlined in DOE Order RA 6120.2, revised studies and rate adjustments have been developed to demonstrate that sufficient revenues will be collected under Provisional Rates to meet future obligations. The PRS revenue requirement and Composite Rate remain unchanged, as indicated in Table 1.

**Table 1 - Comparison of LAP Revenue Requirement and Composite Rate**

	<b>Existing Requirements (January 1, 2010)</b>	<b>Provisional Requirements (January 1, 2015)</b>	<b>Percent Change</b>
<b>LAP Revenue Requirement</b> (millions \$)	\$84.5	\$84.5	0%
<b>LAP Composite</b> (mills/kWh)	41.42	41.42	0%

**Existing and Provisional Rates**

Under Rate Schedule L-F10, the firm capacity charge remains \$5.43/kWmonth, and the firm energy charge remains 20.71 mills/kWh. This Rate Schedule is formula-based to provide for an annual adjustment to the Drought Adder component. An incremental upward adjustment to the Drought Adder greater than the equivalent of 2 mills/kWh to the PRS Composite Rate will require a public process. The Drought Adder may be adjusted downward pursuant to the formula without a public process. The overall capacity and energy charges are not changing, as indicated in the following Table 2:

**Table 2 - Comparison of Existing and Provisional LAP Firm Electric Service Rates**

<b>Firm Electric Service</b>	<b>Existing Charges Under Rate Schedule L-F9 Effective January 1, 2010</b>	<b>Provisional Charges Under Rate Schedule L-F10 Effective January 1, 2015</b>	<b>Percent Change</b>
<b>Firm Capacity</b> (\$/kWmonth)	\$5.43	\$5.43	0%
<b>Firm Energy</b> (mills/kWh)	20.71	20.71	0%

Under the current rate methodology, rates for LAP firm electric service are designed to recover

an annual revenue requirement that includes investment repayment, interest, purchase power, O&M, and other expenses within the allowable period.

Western is truing up the Base and Drought Adder components included in the rate schedule and placing a new rate schedule into effect for the 5-year period, beginning January 1, 2015, through December 31, 2019. The true-up updates the Base components to represent present costs and lowers the Drought Adder components to represent present drought costs. Over the past 5-year rate period, the P-SMBP costs included in the LAP Drought Adder have decreased as the actual deficits were less than the projected deficits. Additionally, P-SMBP drought costs were repaid ahead of schedule, which decreased the drought deficit interest expense. The portion of the LAP Drought Adder component coming from Fry-Ark (\$200,000) is now going to \$0, as Fry-Ark did not actually incur any deficits and Fry-Ark is not projecting any future Non-timing Power Purchases at this time. All historical drought-related costs for Fry-Ark have been repaid. In addition, Base costs increased during that same period due to a new 5-year cost evaluation period, new investments and replacements, and inflationary costs.

### **Certification of Rates**

Western's Administrator certified that the firm electric service rates under Rate Schedule L-F10 are the lowest possible rates consistent with sound business principles. The rates were developed following administrative policies and applicable laws.

### **LAP Firm Electric Service Rate Discussion**

Western must establish power rates sufficient to recover O&M, purchased power and interest expenses, and repay power investment and irrigation aid.

The Criteria, published in the Federal Register on January 31, 1986 (51 FR 4012), operationally and contractually integrated the resources of the P-SMBP--WD and Fry-Ark

(hereafter referred to as LAP). A blended rate was established for the sale of LAP firm electric service. The P-SMBP--WD portion of the revenue requirement for LAP firm electric service rates was developed from the revenue requirement calculated in the P-SMBP Ratesetting PRS. The P-SMBP--WD revenue requirement remains the same from the previous rate process revenue requirement. The revenue requirements for P-SMBP--WD are as follows:

**Table 3 - Summary of P-SMBP--WD Revenue Requirements (\$000)**

<b>Current Revenue Requirement (Jan 2010)</b> (34.80 mills/kWh x 1,988,000,000 kWh)	\$69,182
<b>Provisional Change (Jan 2015)</b> Base: 4.84 mills/kWh x 1,988,000,000 kWh Drought Adder: -4.84 mills/kWh x 1,988,000,000 kWh	\$ 9,622 <u>\$-9,622</u> \$ 0
<b>Provisional Revenue Requirement</b> (34.80+0.00 = 34.80 mills/kWh x 1,988,000,000 kWh)	\$69,182

The adjustment to the P-SMBP--ED revenue requirement is a separate formal rate process, which is documented in Rate Order No. WAPA-166. Rate Order No. WAPA-166 is also scheduled to go into effect on the first day of the first full billing period on or after January 1, 2015.

#### Fry-Ark

The Fry-Ark portion of the revenue requirement for LAP firm electric service rates was developed from the revenue requirement calculated in the Fry-Ark Ratesetting PRS. The Fry-Ark revenue requirement remains the same as the previous rate process revenue requirement. The revenue requirements for Fry-Ark are as follows:

**Table 4 - Summary of Fry-Ark Revenue Requirements (\$000)**

<b>Current Revenue Requirement (Jan 2010)</b>	\$15,328
<b>Provisional Change (Jan 2015)</b>	
Base:	\$ 200,000
Drought Adder:	<u>\$-200,000</u>
	\$ 0
<b>Provisional Revenue Requirement</b>	\$15,328

The following table compares LAP existing revenue requirements to the proposed revenue requirements:

**Table 5 - Summary of LAP Revenue Requirements (\$000)**

	<b>Existing (January 2010)</b>	<b>Provisional (January 2015)</b>
<b>P-SMBP--WD</b>	\$69,182	\$69,182
<b>Fry-Ark</b>	\$15,328	\$15,328
<b>Total LAP</b>	\$84,510	\$84,510

Under Rate Schedule L-F10, Western will continue to identify its firm electric service revenue requirement using Base and Drought Adder components. The Base component is a fixed revenue requirement for each project that includes annual O&M expenses, investment repayment and associated interest, normal timing power purchases, and transmission costs. Western's normal timing power purchases are purchases due to operational constraints (e.g., management of endangered species habitat, water quality, navigation, control area purposes, etc.) and are not associated with drought conditions in the Regions. The Base component cannot be adjusted by Western without a public process. The Drought Adder component is a formula-based revenue requirement that includes costs attributable to drought conditions within LAP.

The Drought Adder component includes costs associated with future Non-timing Power Purchases to meet firm power contractual obligations not covered with available system generation due to a drought, previously incurred deficits due to purchased power debt that resulted from Non-timing Power Purchases made during a drought, and the interest associated with drought debt. The Drought Adder component is designed to repay Western's drought debt within 10 years from the time the debt was incurred, using balloon-payment methodology. For example, the drought debt incurred by Western in FY 2009 will be repaid by FY 2019.

The annual revenue requirement calculation will continue to be summarized by the following formula: Annual Revenue Requirement = Base Revenue Requirement + Drought Adder Revenue Requirement. Under this Provisional Rate, the LAP annual revenue requirement equals \$84.5 million and is comprised of a Base revenue requirement of \$69.2 million plus a Drought Adder revenue requirement of \$15.3 million.

A comparison of the existing and provisional charge components is listed in Table 6.

**Table 6 - Summary of LAP Charge Components**

<b>Firm Electric Service</b>	<b>Existing Charges Under Rate Schedule L-F9 Effective (January 1, 2010)</b>			<b>Provisional Charges Under Rate Schedule L-F10 Effective (January 1, 2015)</b>		
	<b>Base Component</b>	<b>Drought Adder Component</b>	<b>Total Charge</b>	<b>Base Component</b>	<b>Drought Adder Component</b>	<b>Total Charge</b>
Firm Capacity (\$/kWmonth)	\$3.29	\$2.14	\$5.43	\$3.92	\$1.51	\$5.43
Firm Energy (mills/kWh)	12.54	8.17	20.71	14.95	5.76	20.71

Continuing to identify the firm electric service revenue requirement using Base and Drought Adder components will assist Western in presenting the effects of the drought within LAP, demonstrating repayment of the drought-related costs, and allow Western to be more responsive

to changes in drought-related expenses. Western will continue to charge and bill customers firm electric service charges for energy and capacity, which are the sum of the Base and Drought Adder components.

Western reviews its firm electric service rates annually. Western will review the Base component after the annual PRS is completed, generally in the first quarter of the calendar year. If an adjustment to the Base component is necessary, Western will initiate a public process pursuant to 10 CFR part 903 prior to making an adjustment.

In accordance with the original implementation of the Drought Adder component, Western will review the Drought Adder component each September to determine if drought costs differ from those projected in the PRSs. If drought costs differ, Western will determine if an adjustment to the Drought Adder component is necessary. Western will notify customers by letter each October of the planned incremental or decremental adjustment and implement the adjustment in the January billing cycle. Although decremental adjustments to the Drought Adder component will occur as drought costs are repaid, the adjustments cannot result in a negative Drought Adder component. To give customers advance notice, Western will conduct a preliminary review of the Drought Adder component in early summer and notify customers by letter of the estimated change to the Drought Adder component for the following January. Western will verify the final Drought Adder component adjustment and notify customers by letter each October of any planned increase or decrease in this component. Implementing the Drought Adder component adjustment on January 1 of each year will help keep the drought deficits from escalating, will lower the interest expense due to drought deficits, will demonstrate responsible deficit management, and will provide prompt drought deficit repayments.

Western's current and provisional rate schedule is formula-based to provide for an annual



adjustment to the Drought Adder component. An incremental upward adjustment to the Drought Adder greater than the equivalent of 2 mills/kWh to the PRS Composite Rate will require a public process. The Drought Adder may be adjusted downward pursuant to the formula without a public process.

#### Statement of Revenue and Related Expenses

The following Table 7 provides a summary of projected revenue and expense data for the Fry-Ark firm electric service revenue requirement through the 5-year rate approval period.

**Table 7 – Fry-Ark Comparison of 5-Year Rate Period (FY 2015-2019)  
Total Revenues and Expenses**

	Existing Rate (\$000)	Provisional Rate (\$000)	Difference (\$000)
Total Revenues	\$84,897	\$89,012	\$4,115
<u>Revenue Distribution</u>			
<b>Expenses:</b>			
O&M <sup>1/</sup>	\$25,307	\$32,322	\$7,015
Purchased Power	1,077	691	(386)
Interest <sup>2/</sup>	20,243	16,080	(4,163)
Transmission <sup>3/</sup>	20,671	12,663	(8,008)
<b>Total Expenses</b>	<b>\$67,298</b>	<b>\$61,756</b>	<b>\$(5,542)</b>
<b>Principal Payments:</b>			
Capitalized Expenses (Deficits)	\$0	\$0	\$0
Original Project and Additions <sup>4/</sup>	14,214	21,757	7,543
Replacements <sup>4/</sup>	3,385	5,499	2,114
<b>Total Principal Payments</b>	<b>\$17,599</b>	<b>\$27,256</b>	<b>\$9,657</b>
<b>Total Revenue Distribution</b>	<b>\$84,897</b>	<b>\$89,012</b>	<b>\$4,115</b>

<sup>1/</sup> The increase in O&M expense is due to changes reflected in both Western's and Reclamation's FY15 work plans.

<sup>2/</sup> The decrease in interest expense is primarily due to increased repayment over the 5-year period.

<sup>3/</sup> The decrease in Transmission Expenses is due to the negotiation of a new contract.

<sup>4/</sup> The difference in principal payments is due to increased revenue being available for repayment during the 5-year period.

The summary of P-SMBP--WD revenues and expenses for the 5-year Provisional Rate approval period is included in the P-SMBP Statement of Revenue and Related Expenses that is part of Rate Order No. WAPA-166.

### Basis for Rate Development

The existing charges for firm electric service in Rate Schedule L-F9, which expires December 31, 2014, continue to provide sufficient revenue to meet the LAP repayment obligations. The total annual revenue requirement for LAP remains \$84.5 million for firm electric service, and the overall capacity and energy charges are not changing. The Provisional Rates, under Rate Schedule L-F10, will take effect on the first full billing period on or after January 1, 2015, and will remain in effect on an interim basis, pending FERC's confirmation and approval of the rate schedule or substitute rates on a final basis, through December 31, 2019.

### Comment

Western received one comment letter during the public consultation and comment period. The comment expressed in this letter has been paraphrased, where appropriate, without compromising the meaning of the comments.

Comment: One customer representative supported the rate modifications as proposed, and emphasized the need for continued cost control regarding the Base component. They stated the Base costs cannot grow unabated and replace the shrinking Drought Adder. The customer stressed that cost control is of paramount importance.

Response: Western agrees with the above comment. Western is committed to keeping the power rates at the lowest possible rates while maintaining sound business principles. All budgeted O&M and capital improvements are vetted annually through customer work plan meetings to assess the impacts to the rates.

### **Availability of Information**

All documents related to this action are available for inspection and copying at the Rocky Mountain Regional Office, located at 5555 East Crossroads Boulevard, Loveland, Colorado.

These documents are also available on Western's Web page located at

<http://www.wapa.gov/rm/ratesRM/2015/2015RateAdjustment.htm>.

### **Ratemaking Procedure Requirements:**

#### Environmental Compliance

In compliance with the National Environmental Policy Act (NEPA) of 1969 (42 U.S.C. 4321-4347), the Council on Environmental Quality Regulations for implementing NEPA (40 CFR parts 1500-1508), and DOE NEPA Implementing Procedures and Guidelines (10 CFR part 1021), Western has determined this action is categorically excluded from preparing an environmental assessment or an environmental impact statement.

#### Determination Under Executive Order 12866

Western has an exemption from centralized regulatory review under Executive Order 12866; accordingly, no clearance of this notice by the Office of Management and Budget is required.

#### Submission to the Federal Energy Regulatory Commission

The Provisional Rates herein confirmed, approved, and placed into effect on an interim basis, together with supporting documents, will be submitted to FERC for confirmation and final approval.

## **ORDER**

In view of the foregoing and under the authority delegated to me, I confirm and approve on an interim basis, effective on the first full billing period on or after January 1, 2015, Rate Schedule L-F10 for the Loveland Area Projects of the Western Area Power Administration. This rate schedule shall remain in effect on an interim basis, pending the Federal Energy Regulatory Commission's confirmation and approval of the rate schedule or substitute rates on a final basis through December 31, 2019.

Dated: December 2, 2014

Elizabeth Sherwood-Randall  
Deputy Secretary of Energy

**UNITED STATES DEPARTMENT OF ENERGY  
WESTERN AREA POWER ADMINISTRATION**

**LOVELAND AREA PROJECTS  
COLORADO, KANSAS, NEBRASKA, WYOMING**

**SCHEDULE OF RATE FOR FIRM ELECTRIC SERVICE**

(Approved Under Rate Order No. WAPA-167)

Effective:

The first day of the first full billing period beginning on or after January 1, 2015, through December 31, 2019, or until superseded by another rate schedule.

Available:

Within the marketing area served by the Loveland Area Projects.

Applicable:

To the wholesale power customers for firm electric service supplied through one meter at one point of delivery, or as otherwise established by contract.

Character:

Alternating current, 60 hertz, three phase, delivered and metered at the voltages and points established by contract.

Formula Rate and Charge Components:

Rate = Base component + Drought Adder component

Monthly Charge as of January 1, 2015, under the Rate:

CAPACITY CHARGE: \$5.43 per kilowatt of billing capacity.

ENERGY CHARGE: 20.71 mills per kilowatthour (kWh) of monthly entitlement.

BILLING CAPACITY: Unless otherwise specified by contract, the billing capacity will be the seasonal contract rate of delivery.

Base: A fixed revenue requirement that includes operation and maintenance expense, investment repayment and associated interest, normal timing power purchases (purchases due to operational constraints, not associated with drought), and transmission costs. The Base revenue requirement is \$69.2 million.

$$\text{Base Capacity} = \frac{50\% \times \text{Base Revenue Requirement}}{\text{Firm Billing Capacity}} = \$3.92/\text{kWmonth}$$

$$\text{Base Energy} = \frac{50\% \times \text{Base Revenue Requirement}}{\text{Annual Energy}} = 14.95 \text{ mills/kWh}$$

Drought Adder: A formula-based revenue requirement that includes future purchase power expense in excess of timing purchases, previous purchase power drought deficits, and interest on the purchase power drought deficits. For the period beginning on or after the first day of the first full billing period beginning on or after January 1, 2015, the Drought Adder revenue requirement is \$15.3. million.

$$\text{Drought Adder Capacity} = \frac{50\% \times \text{Drought Adder Revenue Requirement}}{\text{Firm Billing Capacity}} = \$1.51/\text{kWmonth}$$

$$\text{Drought Adder Energy} = \frac{50\% \times \text{Drought Adder Revenue Requirement}}{\text{Annual Energy}} = 5.76 \text{ mills/kWh}$$

Process:

Any proposed change to the Base component will require a public process. The Drought Adder component may be adjusted annually using the above formulas for any costs attributed to drought of less than or equal to the equivalent of 2 mills/kWh to the LAP Composite Rate. Any planned incremental adjustment to the Drought Adder component greater than the equivalent of 2 mills/kWh to the LAP Composite Rate will require a public process. The Drought Adder may

be adjusted downward pursuant to the formulas without a public process. A revised Drought Adder charge may go into effect January 1 of each year based on the formula above. Western will notify the customer annually in October of the revised monthly charges. Any change to the Drought Adder component will be identified in a revision to charges under this rate schedule.

Adjustments:

For Transformer Losses: If delivery is made at transmission voltage but metered on the low-voltage side of the substation, the meter readings will be increased to compensate for transformer losses as provided for in the contract.

For Power Factor: None. The customer will be required to maintain a power factor at all points of measurement between 95-percent lagging and 95-percent leading.

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